September 07, 2020

Sayaji Hotels Limited: Ratings downgraded; outlook continues to be Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term -Term Loans	68.95	68.95	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB-(Negative)
Fund-based- Working Capital Facilities	8.75	8.75	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB-(Negative)
Non-fund Based-Working Capital Facilities	0.5	0.5	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB-(Negative)
Long-Term Unallocated Limits	15.68	15.68	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB-(Negative)
Total	**93.88**	**93.88**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in ratings factors in the expected weakening in Sayaji Hotels Limited's (SHL) credit profile in FY2021 owing to the sharp decline in demand due to disruption caused by the novel coronavirus (Covid-19) pandemic. The Negative outlook on the long-term rating continues to reflect the likelihood of extensive and extended impact of the pandemic on the global travel and hospitality industry and is in line with ICRA's Negative outlook for the sector.

The pandemic has severely impacted the hospitality industry and all of SHL's properties remained closed from mid-March 2020 till end of May 2020. While operations have gradually resumed from June 2020 onwards, ICRA expects that prolonged averseness to travel–voluntary or owing to Government restrictions–due to the pandemic would result in subdued occupancy levels at the hotels, resulting in weak financial performance of the company over the near term. Furthermore, as over 50% of the company's revenues come from MICE[1] and food and beverage segment (F&B), the recovery in operations could be more prolonged due to restrictions on large gatherings and need for social distancing. With demand plunging to multi-year lows and recovery likely to be prolonged and contingent on a cure or vaccine, ICRA expects SHL to witness a significant fall in the revenues in FY2021, despite considerable cost containment measures. As a result, the company's cash accruals and liquidity position are likely to materially weaken in the near to medium term.

SHL had moderate debt coverage indicators (TD/OPBDITA of 4.9[2] and DSCR of 1.1 time as on March 31, 2020 on standalone basis) and has significant repayment obligations, of ~Rs. 30 crore over FY2021-FY2022 (excluding payments due during RBI moratorium availed from Apr to Aug 2020). Given the high operating leverage and debt servicing requirements, the sharp contraction in earnings will have a detrimental impact on the company's ability

[1] *Meeting, Incentives, Conferences and Exhibitions*

[2] *Total Debt includes operating lease liabilities reported under Ind AS 116 w.e.f. April 1, 2019*

to service its debt. Accordingly, SHL has already availed the moratorium on debt servicing from April-August 2020 (as permitted by the Reserve Bank of India). Given the expectation of operating losses and sizeable debt obligations (September 2020 onwards), the company has requested for restructuring its debt obligations and continue relying on timely financial support from its promoters. While promoter's commitment to the business is evidenced by a track record of extending funding support as unsecured loans and preference shares, the high cost of this debt, coupled with high repayment obligations over the next two years is expected to weaken the company's debt metrics. While ICRA understands that SHL intends to apply for the one-time restructuring plan permitted by the RBI, it is yet to submit a formal application as RBI guidelines on the same are awaited. ICRA will continue to monitor the developments and its impact on credit profile as it evolves.

Furthermore, ICRA notes that SHL has significant investment in Barbeque Nation Hospitality Limited (BNHL rated [ICRA] BBB+(Negative)/[ICRA] A2), which is involved in the F&B segment and is also facing the severe brunt of the pandemic. Given its high leverage and debt servicing requirements, BHNL is also expected to remain dependent on timely fund raising from the promoters, among others, to support its debt obligations and to fund losses. While any funding support from SHL to BNHL is unlikely, both the companies have common promoters – the Dhanani family. Given the likelihood of a prolonged cash-flow mismatch, the promoter's ability to timely provide funding support to both these entities would be a key monitorable.

Notwithstanding the above, the ratings factor in the extensive experience of SHL's promoters and their demonstrated track record of funding support, its geographically diversified portfolio, reputed name in the F&B and banqueting segment and brand recall of Sayaji and Effotel in the operative micro-markets. ICRA notes the increase in the company's portfolio in FY2020, with the launch of a new brand–Enrise (at Indore and Pune) and properties at Gurgaon (50 keys) and Rajkot (75+ keys) on management contract basis. The same has been in line with the management's stated strategy of leveraging its brand name and expanding presence through an asset-light model. Given the expectation of extended impact of Covid-19, the benefits from this managed portfolio are expected to take longer to be realised.

Key rating drivers and their description

Credit strengths

Experienced promoters with demonstrated record of funding support – SHL is promoted by the Dhanani family, which has been involved in the hospitality industry for over 30 years. The promoter family has demonstrated a track record of providing funding support to the company for its periodic capex and short-term funding mismatches in the form of unsecured loans and preference share capital of around Rs. 20.5 crore. Purchase of SHL's non-core investments by the promoters, such as the stake sale in Aries Hotel, supported SHL's cash flows in FY2020. All these are indicative of the promoters' commitment to its business and ICRA expects this need-based support to continue.

Healthy geographical diversification; strong brand recognition of Sayaji in operative micro-markets – Under its in-house brand, Sayaji and Effotel, the company has established itself as a reputed hotel chain primarily in the tier-II and tier-III cities. With nearly 1,200+ rooms across ten operational properties in eight cities, the brands Sayaji and Effotel are rapidly expanding their market presence, leading to healthy geographical diversification. The promoters have launched another brand–Enrise by Sayaji–in the full-service mid-scale segment in Indore and Pune and plan to expand this brand in other cities where Sayaji already has an established presence. ICRA expects that this would further increase brand visibility and facilitate rapid expansion of SHL in diversified markets through an asset-light model.

Portfolio expansion through management contracts limits capex and project implementation risk – Over the past three years, the management has shifted its focus from building capex-intensive properties to following an asset-light model of expansion, through leasing of properties and management contracts. The last few Sayaji properties (land and building) in Raipur and Vadodara have been acquired on lease, while it has expanded its portfolio of properties under management contract with the launch of Effotel-Gurugram and Sayaji-Rajkot in FY2020. This strategy is expected to help in conserving funds, while allowing the scope for quick scale-up of revenues and profitability**.**

Credit challenges

Expected impact of Covid-19 on operating metrics and consequent negative operating leverage – Given the discretionary nature of spending, the travel and tourism industry has always been highly susceptible to exogenous shocks such as wars, terror attacks, diseases and meltdowns. Following the Covid-19 outbreak, ICRA expects significant pressure on the industry revPARs, initially through lower occupancies, over the next few quarters. As hotels have high operating and financial leverage, it renders them highly susceptible to any reduction in revenues. With sizeable leverage and debt servicing requirements, the sharp contraction in revenues will have a detrimental impact on SHL's profitability margins. The anticipated benefits from expansion of portfolio under management contract route and the pace of flow-through to profitability are also likely to be gradual than previously anticipated and will remain a monitorable.

Moderate debt coverage indicators with sizeable medium-term repayment – SHL has moderate debt coverage indicators, evidenced by DSCR over of 1.1 time and TD/OPBDITA of 4.9 times as on March 31, 2020 (on standalone basis). The company availed incremental debt of Rs. 10 crore in Q4FY2020, taking the overall consolidated debt to Rs. 91 crore as of March 31, 2020 (including Rs. 20 crore, payable to Shri Nakoda towards cancellation of agreement for land at Indore hotel). It has principal repayment obligation of approximately Rs. 30 crore, cumulatively over FY2021 and FY2022 (excluding RBI moratorium period)[3]. Amidst expectation of muted earnings, this would keep the debt coverage metrics under pressure over the medium term. Timely restructuring of debt and/or funding support from the promoters would be crucial to enable timely repayments and this would be a key monitorable from the rating perspective.

Liquidity position: Stretched

SHL had external debt outstanding of approximately Rs. 91 crore as on March 31, 2020. The company's liquidity is expected to remain **stretched** in the near term. While it has availed the moratorium on its bank loans under the window provided by the RBI for April-August 2020, post-moratorium, SHL has scheduled debt obligation of nearly Rs. 12 crore in FY2021 for which it has applied for one-time debt restructuring. While the company had undrawn

[3] *As informed by the company, the repayment of Rs. 20 crore to Shri Nakoda, previously due in FY2021, has been renegotiated and classified as non-current liability as on Mar 31, 2020.*

credit lines of approximately Rs. 8.75 crore as of July end 2020, timely funding support from the promoters and/or lenders would be crucial for meeting debt obligations.

Rating sensitivities

Positive triggers – An upgrade in near-term is unlikely, given the Negative outlook on the industry driven by the severe impact of Covid-19 pandemic on the travel and tourism business. Nonetheless, a sustained improvement in operational metrics and profitability margins following the pandemic or infusion of equity or sale of assets leading to reduction in leverage metrics and improvement in liquidity position could be a trigger for a change in the outlook.

Negative triggers – Negative pressure on SHL's rating could arise for reasons including prolonged impact of the pandemic leading to slower-than-anticipated recovery in operating metrics; delay in funding support from the promoters; weakening of its debt servicing indicators; and liquidity position. SHL's ability to amicably resolve the legal dispute with Indore Development Authority (IDA) for its flagship Indore property, over the alleged violation of lease terms by the company, remains a key monitorable. Any adverse verdict in the matter can severely impact SHL's credit profile and remains an event risk.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Consolidation and Rating Approach
Parent/Group Support	None
Consolidation / Standalone	The rating is based on consolidated financial statements of the issuer. The consolidated entities are listed under Annexure-2.

About the company

Incorporated in 1982, SHL commenced operations of its first hotel property at Vadodara in 1990. As on date, it has a portfolio of 1,200+ rooms across ten hotel properties. These are in Vadodara (two properties), Indore (two properties), Pune, Bhopal, Raipur, Kolhapur, Gurgaon and Rajkot. The properties are operated under its in-house brands –Sayaji and Effotel. The company has a banquet hall property, Amber Garden, in Indore. The Effotel Indore hotel is owned through its 51.67% owned subsidiary Malwa Hospitality Private Limited (MHPL), while the properties at Kolhapur, Gurgaon and Rajkot (cumulative room inventory of 250 keys) are under management contract. The promoter of SHL has launched another brand – Enrise by Sayaji – in FY2020 under which it operates two properties, one each at Indore and Pune.

The company has been listed on BSE since 1992. It owns a chain of 148 restaurants through its 45.1% owned associate - BNHL, which is owned through SHL's wholly owned subsidiary Sayaji Housekeeping Services Limited). SHL is promoted by the Indore-based Dhanani family, which directly held 74.9% stake as on June 30, 2020.

Key financial indicators (Audited)

Consolidated	FY2018	FY2019	9M FY2020*
Operating Income (Rs. crore)	215.8	244.4	176.2
PAT (Rs. crore)	(5.8)	(1.0)	(8.2)
OPBDIT/OI (%)	16.0%	17.6%	23.8%
RoCE (%)	4.7%	7.1%	--
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.3	--
Total Debt/OPBDIT (times)	4.3	3.4	--
Interest Coverage (times)	2.1	2.3	1.8
DSCR (times)	1.0	1.3	--

*Source: Annual reports; ICRA research; * Published interim results post Ind-AS 116 adjustment*

PAT: Profit after Tax excluding share of profit/loss from associate/JVs; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding 31-Mar-20 (Rs. crore)	Date & Rating 7-Sep-20	Date & Rating 24-Apr-20	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 26-Nov-19	Date & Rating in FY2020 30-Aug-19^	Date & Rating in FY2019 27-Sep-18	Date & Rating in FY2018 16-Feb-18	Date & Rating in FY2018 27-Dec-17
1	Long term - Term Loans	Long Term	68.95	48.52	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (stable)	[ICRA]BBB-&; on watch with developing implications	[ICRA]BBB-&; on watch with developing implications	[ICRA]BBB- (stable)	[ICRA]BBB-@; on watch with negative implications
2	Long term- Cash Credit Facilities	Long Term	8.75	--	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (stable)	[ICRA]BBB-&	[ICRA]BBB-&	[ICRA]BBB- (stable)	[ICRA]BBB- @
3	Long term - Non-fund-based facilities	Long Term	0.5	--	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (stable)	[ICRA]BBB-&	[ICRA]BBB-&	[ICRA]BBB- (stable)	[ICRA]BBB- @
4	Unallocated	Long term	15.68	--	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (stable)	[ICRA]BBB-&	[ICRA]BBB-&	[ICRA]BBB- (stable)	[ICRA]BBB- @

^ PR for delay in periodic surveillance published in May 2019

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Jan-15	NA	Jul-21	7.10	[ICRA]BB+ (Negative)
NA	Term Loan 2	Sep-16	NA	Mar-22	12.37	[ICRA]BB+ (Negative)
NA	Term Loan 3	Sep-16	NA	Mar-21	1.43	[ICRA]BB+ (Negative)
NA	Term Loan 4	Jan-17	NA	Jan-25	21.05	[ICRA]BB+ (Negative)
NA	Term Loan 5	Oct-16	NA	Oct-21	7.43	[ICRA]BB+ (Negative)
NA	Term Loan 6	Oct-16	NA	Sep-23	5.72	[ICRA]BB+ (Negative)
NA	Term Loan 7	Oct-16	NA	Sep-20	2.71	[ICRA]BB+ (Negative)
NA	Term Loan 8	Mar-18	NA	Jul-26	8.70	[ICRA]BB+ (Negative)
NA	Term Loan 9	Mar-18	NA	Sep-26	2.44	[ICRA]BB+ (Negative)
NA	Cash Credit	Mar-18	NA	NA	8.75	[ICRA]BB+ (Negative)
NA	Bank Guarantee	Mar-18	NA	NA	0.50	[ICRA]BB+ (Negative)
NA	Unallocated Limits	NA	NA	NA	15.68	[ICRA]BB+ (Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sayaji Hotels Limited	100.00% (Rated entity)	-
Malwa Hospitality Private Limited	51.67%	Full Consolidation
Sayaji Housekeeping Services Limited	100.00%	Full Consolidation
Barbeque Nations Hospitality Limited	45.73%	Equity Method
Sayaji Hotels Management Limited	100.00%	Full Consolidation
Sayaji Hotels (Pune) Limited	100.00%	Full Consolidation
Sayaji Hotels (Vadodara) Limited	100.00%	Full Consolidation

Source: SHL's Annual report FY2019 and company discussion

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